

Sheryl (Sherry) L. Herauf  
Director  
Federal Regulatory Relations

1275 Pennsylvania Avenue, N.W., Suite 1200  
Washington, D.C. 20004  
(202) 383-6424

**PACIFIC**  **TELESIS**  
Group - Washington

May 13, 1996

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
Mail Stop 1170  
1919 M Street, N.W., Room 222  
Washington, DC 20554

RECEIVED  
MAY 13 1996  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Dear Mr. Caton:

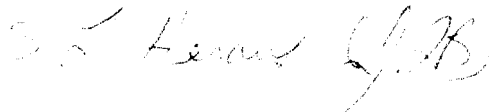
*Re: CC Docket No. 96-22 Responsible Accounting Officer Letter 25, Uniform  
Accounting for Postretirement Benefits Other Than Pensions in Part 32*

*AAD 92-65, Amendments to Part 65, Interstate Rate of Return Prescription  
Procedures and Methodologies, Subpart G, Rate Base*

On behalf of Pacific Bell, please find enclosed an original and six copies of its  
"Reply Comments" in the above referenced proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact  
me should you have any questions or require additional information concerning  
this matter.

Sincerely,



045

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

RECEIVED  
MAY 13 1996

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

In the Matter of

Responsible Accounting Officer  
Letter 25, Uniform Accounting for  
Postretirement Benefits Other  
Than Pensions in Part 32

Amendments to Part 65, Interstate Rate  
of Return Prescription Procedures and  
Methodologies, Subpart G, Rate Base

CC Docket No. 96-22

AAD 92-65

DOCKET FILE COPY ORIGINAL

**REPLY COMMENTS OF PACIFIC BELL**

Pacific Bell respectfully replies to comments filed in the above-captioned proceeding. Comments were filed by seven price cap carriers and MCI. The comments are distinguished by the extent of their agreement. Commentors, including MCI, agree that the treatment of OPEB costs should be consistent with the Commission's treatment of pension costs. All agree that zero-cost funds should not be included in the ratebase. Commentors also agree on the definition of zero-cost funds as recovered but unpaid costs which makes capital available to the carrier at no cost.<sup>1</sup> There was no disagreement that if OPEB costs were zero-cost funds, they should be excluded from the ratebase. However, since price cap carriers have not recovered

---

<sup>1</sup> MCI Comments, p. 4.

OPEB costs either through rates<sup>2</sup> or exogenous treatment of OPEB costs,<sup>3</sup> accrued unfunded OPEB costs are not zero-cost funds and should not be excluded from ratebase treatment.

Ameritech characterizes the Commission's proposal to exclude all items in Account 4310 as overbroad. We agree. Blanket treatment of Account 4310 would be inappropriate.<sup>4</sup> As we said in our Comments,<sup>5</sup> the entries in Account 4310 must be determined to be zero-cost funds before being excluded from the ratebase. While we agree with US West that a general policy of including investor supplied funds recorded in the rate base and excluding zero cost funded items would eliminate the need for costly, time consuming Commission proceedings to determine proper rate base treatment,<sup>6</sup> that policy only describes how the costs recorded to those accounts should be treated once they are identified. Each carrier, however, may need to determine on a case by case basis which items recorded in Account 4310 are excludable zero-cost funds. Otherwise, as BellSouth points out, adopting blanket treatment of Account 4310 will exacerbate the effect of rate base rules that already produce a rate base lower than the capital required to provide interstate telecommunications service<sup>7</sup> and thus, will have the effect of moving carriers even further from economic reality.

---

<sup>2</sup> We agree with NYNEX that if OPEB costs were included in the initial price cap rates, they would be recovered to the extent a carrier is earning a profit. NYNEX Comments, p. 4. However, OPEB costs were not included in Pacific's initial price cap rates and have not been recovered in this manner.

<sup>3</sup> Bell Atlantic Comments, p. 3.

<sup>4</sup> Comments of Ameritech, p. 1.

<sup>5</sup> Pacific Bell Comments, p. 4.

<sup>6</sup> Comments of US West Communications, Inc., p. 3.

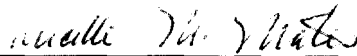
<sup>7</sup> Comments of BellSouth, p. 2.

We agree with Bell Atlantic that the Commission should permit exogenous cost recognition of the OPEB costs.<sup>8</sup>

Finally, we join Southwestern Bell in urging the Commission to adopt necessary rule changes promptly.<sup>9</sup> The OPEB cost treatment has been unsettled for too long. The Commission's rule, however, must recognize that excluding OPEB and Account 4310 costs from the rate base is only appropriate for true zero-cost funds.

Respectfully submitted,

PACIFIC BELL



---

LUCILLE M. MATES

140 New Montgomery Street, Rm. 1526  
San Francisco, California 94105  
(415) 542-7654

MARGARET E. GARBER

1275 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004  
(202) 383-6472

Its Attorneys

Date: May 14, 1996

---

<sup>8</sup> Bell Atlantic Comments, p. 3.

<sup>9</sup> Comments of Southwestern Bell Telephone Company, p. 4.

**CERTIFICATE OF SERVICE**

I, Cheryl A. Peters hereby certify that on this 14th day of May, 1996 a true and correct copy of the foregoing **REPLY COMMENTS OF PACIFIC BELL** regarding CC Docket No. 96-22, was served by hand or by first-class United States mail, postage prepaid to the parties shown on the attached list.

  
Cheryl A. Peters

**SERVICE LIST - CC DOCKET No. 96-22  
REPLY COMMENTS OF PACIFIC BELL**

International Transcription \*  
Service (ITS)  
1919 M Street, N. W.  
Room 246  
Washington, D. C. 20554

Edward Shakin  
Attorney for BELL ATLANTIC  
TELEPHONE COMPANIES  
1320 North Court House Road  
Eighth Floor  
Arlington, VA 22201

Michael S. Pabian  
Attorney for AMERITECH  
2000 West Ameritech Center Dr.  
Room 4H82  
Hoffman Estates, IL 60196-1025

M. Robert Sutherland  
Attorney for BELLSOUTH CORP.  
AND BELLSOUTH TELECOM-  
MUNICATIONS, INC.  
1155 Peachtree Street, N. E.  
Suite 700  
Atlanta, GA 30309-3610

Campbell Ayling  
Attorney for the NYNEX  
Telephone Companies  
1111 Westchester Avenue  
White Plains, NY 10604

Robert M. Lynch  
Durward D. Dupre  
Thomas A. Pajda  
Jonathan W. Royston  
Attorneys for SOUTHWESTERN BELL  
TELEPHONE COMPANY  
One Bell Center  
Suite 3520  
St. Louis, Missouri 63101

Gregory L. Cannon  
Attorney for U S WEST  
COMMUNICATIONS, INC.  
1020 19th Street, N. W.  
Suite 700  
Washington, D.C. 20036

Don Sussman  
Regulatory Analyst  
MCI TELECOMMUNICATIONS  
CORPORATION  
1801 Pennsylvania Ave., N. W.  
Washington, D. C. 20006

\* BY HAND